

# Determinants of Preferences for Suppliers in an Industrial Value System: An Interactionist Perspective

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**Abstract:** In this paper, we use an interactionist perspective to study inter-industry variation in buying behavior. We argue that individual purchasers' preferences for suppliers depend on three broad classes of variables: (1) The structure of the value chain stage in which the firm competes, (2) the firm's competitive strategy and (3) individual level work experience from the fisheries and other sectors. Structure is related to preferences because a highly transparent market with many homogeneous suppliers forces buyers to emphasize prize over other supplier selection criteria. Competitive strategy is believed to exert influence on preferences because strategy defines areas in which the firm has to outperform its competitors. As competitive advantage partly stems from an adaptation of suppliers, strategically important areas translate into criteria for supplier selection. A purchaser's experience from work within or outside this sector is partly stored as cognitive structures that are used for making decisions and interpretation of information in complex and ambiguous environments. Present use of criteria for selecting suppliers, thus, partly reflects such experiences, in particular what has led to goal achievement in the past. A set of supplier selection criteria was identified based on a literature review and a qualitative prestudy. A set of theory-driven hypotheses are tested using data from a sample of respondents from UK, Spain and France ( $n = 99$ ). Data were obtained from both traditional coast based importers-wholesalers and regionally based wholesalers. A conjoint approach was used in order to measure relative importance of supplier selection criteria at the individual purchaser level. Substantial support was found for a relationship between the three sets of variables and perceived relative importance of supplier selection criteria.

## 1. INTRODUCTION

Understanding the determinants of industrial buyers' choice of suppliers is important for manufacturers trying to develop a favorable competitive position vis-à-vis other firms in their industry. Knowledge of which factors influence overall evaluation of alternative suppliers enables vendor firms to develop strategies by which firm resources and value creating activities can be better aligned with customer preferences. Such alignment can under certain circumstances yield (semi-) sustained competitive advantages to the firm (Peteraf, 1993). Some firms invest heavily in the development of market oriented learning systems in order to detect, interpret and react to changes in market preferences and buying behavior (Kohli and Jaworski, 1990). Literature focusing on the interface between industrial buyers and sellers and its outcomes can be divided into two major schools: a buying behavior school and a relationship marketing school. The relationship marketing school is primarily concerned with how choice of interorganizational structures and processes influence relationship performance (Noordewier, John and Nevin, 1990). Contributions from this school draw heavily on economic organization theory

(Williamson, 1985) and new-classic contract theory (Macneil, 1980) in their research. The buying behavior school focuses on choice processes, in particular choice of suppliers. The dominating theoretical perspectives used in this research are rational and behavioral decision theory at the individual and group levels. One important line of research in the buying behavior school is the identification of supplier selection criteria. The core assumption in this research is that buyers select vendor firms based on a process by which alternative suppliers are compared across a limited set of criteria or dimensions, such as reliability and innovativeness of their offerings. Criteria used for assessing alternative prospective suppliers are assumed to be a reflection of an underlying goal function of the buying firm. Such processes, however are characterized by high levels of ambiguity stemming from factors such as unclear, shifting and contradictory goals within the organization, uncertain relationships between observable supplier attributes and elements in the goal function and large numbers of alternatives. This creates a context in which rational decision-making becomes overwhelmingly difficult to pursue and opens up a number of behavioral influences on the process because no

simple norm for assessing decision quality can be used. Behavioral influences on use of supplier selection criteria is a relatively untapped area of research in industrial buying behavior, partly because industrial buyers are assumed to exhibit a behavior which is close to rational decision-making. The literature has acknowledged variation in criteria in industry, due to different environmental requirements (Lawrence and Lorsch, 1967), but limited attention has been devoted to within-industry variation. In this paper we draw on the interactionist perspective in cognitive psychology in order to develop and test a model of how person and situation factors codetermine the relative importance attached to elements in a fixed set of decision criteria.

## **2.THEORETICAL BACKGROUND AND HYPOTHESES**

### **2.1Interactionist perspective in psychology**

The fundamental and differentiating notion of the interactionist perspective is that an individual's cognition and behavior, although it shows some stability across situations, are importantly influenced by the context in which s/he is embedded. In a similar vein, a given context is assumed to be perceived differently by different individuals. Interactionism in psychology is not equivalent to algebraic interaction in statistical techniques such as ANOVA and moderated regression as the latter perspective would imply that the effect of personal traits on response is dependent on situational attributes and vice versa. Interactionism in psychology has been termed additive interaction (Schneider, 1983), a perspective in which personal and situational attributes combine additively to produce a response or level of response. Development of the interactionist perspective can be seen as a response to prior psychological perspectives that have been criticized for an exaggerated emphasis on the environment or the individual (Pervin, 1968: 65). Application of this perspective on industrial buyer decision-making directs the focus to which contextual and individual factors are important for understanding variations in individual decision processes (Lazarus and Launier, 1978). Work in the interactionist perspective has focused on two interrelated issues of individual cognition and behavior. First, it has been concerned with the ways in which an individual remains stable and changes in relation to varying environmental circumstances. This issue has been termed one of stasis and flow of behavior (Pervin, 1983). The second phenomenon to be described is the ways in which person

characteristics relate to situational demands, an issue that concerns the question of person-situation congruence. As an illustration of the latter, consider the following:

George and George (1956) conducted a study of Woodrow Wilson, in which they contrasted his early successes in executive posts with his later difficulties and his success in national politics with his difficulties in international relations. They suggested that he operated best in situations that were well defined and that offered opportunities for inspirational leadership that would embody the popular will. They also suggested that the field of international relations did not lend itself to Wilson's driving type of leadership and, since he was unable to adapt to the changing circumstances, he had far more problems on the international scene than he had on the domestic scene. Further, they contrasted Wilson's talent in the domestic area and his limitations on the international scene with those of his trusted aide, Colonel House, whose talents ran in quite the opposite direction.

Thus, they concluded that "for a leader's performance, the disruptive potential of certain personality patterns is likely to be highly situation-specific, and a coping strategy that tends to produce adverse political consequences in one situation may be quite functional in others" (George, 1974: 238). This story shows that not only can individuals be motivated to hold on to a particular way of perception and problem-solving across situations, but also that the performance to be expected from such coping strategies is expected to be influenced by demands which vary from one situation to the next. In an attempt to resolve the controversies associated with overly person or situation emphasis, recent contributions have developed a general model in which clusters of situations with high levels of within cluster similarity and between cluster dissimilarity form the basis for response (Epstein and Teraspulskey, 1986). People are then assumed to show behavioral, affective and cognitive consistency across situations within a cluster, but develop different scripts, cognitions and emotions for different clusters (Lord, Foti and DeVader, 1984). Two major processes can account for the tendency for individuals to exhibit across situation consistency. The first is related to a need for economizing on cognitive resources. It is generally accepted that cognitive resources severely limits an individual's capacity to attend to and process information. Limited cognitive capacity creates a need to economize in areas such as attending, depth of processing and attention to detail versus the less capacity consuming use of generalized

categories. Within the context of decision-making, it is much less demanding for an individual to activate a previously developed and stored problem solving strategy than to develop new solutions for every problem that is encountered. Industrial buyers, thus are motivated to use stored representations of problems and problem-solving scripts when performing the supplier selection process. The second is the tendency for people to use problem representations and problem-solving strategies that has worked in the past. The activation of processes associated with past success lead to a perception of control. Perceived control in turn is an important basic need and experienced as pleasant. Together, these processes create some level of consistency across situations (e.g. changing employers and market circumstances). The using of simplification processes also has some associated costs (Payne, Bettman and Johnson, 1993). If situational characteristics interact with the problem-solving strategy-performance link, neglecting differences across situations can lead to poor decision performance. Although people have preferences for using pre-established problem representations and stored solutions, they are not totally immune to variability in the context (Fiske and Neuberg, 1990). If the focal problem context is perceived as highly dissimilar from problems encountered in the past (and represented as problem schemata or categories), people rely less on existing representations and scripts and use more constructive processes involving consideration of information in the present context and development of new problem-solving strategies. In the following section we develop a model that relates individual and situational variables to perceived importance of supplier selection criteria.

## **2.2 Market transparency and customer product class knowledge**

The traditional notion of efficient markets in which prices converge towards long run average total costs represents a competitive environment which forces industrial buyers to focus on costs. Cost ineffective firms are driven out of business because total costs are in excess of total revenues. The most important cost driver in distribution and manufacturing of seafood products is cost of purchased goods, in particular raw materials. In some firms, costs of raw materials accounted for more than 90 % of total costs (Baily and Farmer, 1988). Markets differ with regard to their level of efficiency and, thus, the incentive they provide for industrial buyers to focus on price when selecting a supplier. Two important determinants of market efficiency are free flow of

transparency, and homogeneity of suppliers. Some decision-relevant information, termed market European intermediate markets of the seafood value system (Porter, 1985), such as regional whole sale markets (e.g. M.I.N. Rungis, Mercamadrid, Billingsgate) are specifically designed in order to maximize market efficiency. Free entry is institutionalized by law, there are restrictions on market shares in order to prevent monopolistic competition, administrative personnel collect and publish information on prizes and quantities in stock and buyers can physically inspect products prior to purchase. Other intermediate markets, such as the exporter-importer market are characterized by physical separation of buyers and seller, which prohibits inspection of goods prior to purchase, firms differ in size and other decision-relevant attributes, and comparison between suppliers and offers become more difficult. Together, less market transparency in these markets dulls buyer incentive to focus on price because they are embedded in less competitive environments, and moderate cost ineffectiveness does not have the same immediate impact on profitability. Also, due to the physical separation of buyers and sellers other criteria emerge as more important. As buyers cannot inspect products and are dependent on a well functioning transportation transport system, factors such as supplier reliability, market orientation become important differentiating attribute. Increased focus on other attributes lowers the relative importance of price as a supplier selection criterion. Intermediate markets can also be characterized by the levels of product class knowledge possessed by the buyers (Bettman and Park, 1980; Sujun, 1985). Buyers' product class knowledge has been found to have profound effects on the processes by which they compare alternative offerings. one such effect is the reliance on easily observable and relatively unambiguous attributes such as price. As product class knowledge increases, more sophisticated models of relevant alternative dimensions are developed, partly because on increased insight into relationships between such dimensions and purchase goals. Customer knowledge is assumed to be related to market transparency because both change as a function of stage in the seafood value system. Typically upstream intermediary markets are characterized by low transparency and large, specialized actors with high levels of product class expertise and motivation to process decision-relevant information. Downstream, markets are more transparent, firms are smaller, and the level of product class knowledge is likely to be lower. Based on the above, we propose the following:

**H1: Industrial buyers' emphasis on supplier price level is related to stage in the vertical value system**

**2.3 Buyer firm competitive strategy**

Strategy can be defined as the formulation of basic organizational missions, purposes and objectives; policies and program strategies to achieve them; and the methods needed to assure that strategies are implemented to achieve organizational ends (Steiner and Miner, 1977: 7), or simply, the way to achieve organizational objectives (Hatten and Hatten, 1988: 1). Strategy influence perceptions of supplier selection criteria because of important links between supplier performance in different areas and the achievement of goals defined by an organization's strategy. Competitive strategies can be divided into two broad classes, depending on the overall approach to achieving organizational goals: cost leadership and differentiation (Porter, 1980). Implicitly, goals are assumed to be long term survival, maximizing shareholder value or net present value of the firm. Cost leadership implies a strategy by which the firm attempts to achieve a favorable cost position vis-à-vis competitors while maintaining parity on other important supplier attributes such as reliability and market orientation. The differentiation strategy involves processes and structures that lead to a superior augmented product for which customers are willing to pay a premium. Differentiation leads to superior performance if the costs associated with development, production, distribution and marketing of the product or service are inferior to the price customers are willing to pay. Buyers in firms pursuing a cost leadership strategy are forced to focus relatively more on price than their counterparts in firms with a differentiation strategy. Differentiation, in this industry, involves superior performance in areas such as product adaptation, quality, product portfolio breadth and flexibility. Suppliers play an important role in determining a firm's position on these dimensions. Based on this, we believe:

**H2: There is a relationship between firm competitive strategy and buyers' emphasis on supplier selection criteria**

**2.4 Personal experience**

According to the interactionist perspective, individuals exhibit some level of constancy in behavior, cognition and affect across situations. As discussed above, one major source of such response coherence is individuals' tendency to develop cognitive categories that, when in use, eliminate some

of the stimulus variation inherent in different situations: Situations are, within limits, treated as though they were equivalent. Categorization of situations, in turn, led to activation of similar problem-solving scripts across situations. As the development of categories and problem-solving strategies are based on an individual industrial buyer's prior experience in domains relevant for the supplier selection process, it is to be expected that relative emphasis on supplier selection criteria, partly is determined by personal experience. Two forms of personal experience seem particularly relevant for understanding industrial buyers' decision processes: Prior work experience and formal education. The development of cognitive categories and problem-solving scripts can be seen as an organism's response to demands created by the environment in which s/he is embedded. Prior work experience can influence industrial buyers' use of supplier selection criteria in several ways. Buyers with prior work experience from industries in which the capacity of the firms to adapt quickly to changing demands can carry over an emphasis on supplier flexibility and market orientation to the new industrial setting, because relevant criteria are less than perfectly updated to the new context. Prior work experience from commodity-like industries can be reflected in decision-making strategies that rely more on price than those of buyers with experiences from industries with more differentiated products and services. Formal education can be thought of as a process by which cognitive categories and solution strategies are developed by the individual or passively adopted from the content of the educational program. As formal educational programs differ in content (e.g. business administration versus engineering), the content of cognitive categories and problem-solving strategies relevant for the supplier selection process are also likely to differ as a function of education. Thus:

**H3: There is a relationship between industrial buyer personal experience and relative emphasis on supplier selection criteria**

**3. METHODOLOGY**

In order to test H1-H3, we developed a correlational field design using industrial buyers from three samples of buying firms in the seafood value systems in Spain, UK and France as respondents. Prior to the structured survey, we conducted a prestudy in order to identify relevant supplier selection criteria and to face validity of the theoretical perspective used to portray the buying process.

### 3.1 Prestudy

The prestudy involved semi-structured interviews with seven individuals holding managerial positions in the Norwegian salmon industry. The cuing themes of the interviews were as follows: (1) Think of a cross section of industrial buyers to whom you are currently selling your products or have done so in the past. How would you characterize the variability in bases they use for evaluating your firm as a supplier? (2) Which factors do you believe can account for this variability? This open ended section of the interviews was followed by a focused discussion of how and why our three classes of variables could influence the relative emphasis attached to supplier selection criteria. Results from this part of the prestudy indicate that vendors experience considerable variability across prospective and existing buyers with regard to their use of supplier selection criteria. Several of the respondents noted that they had experienced buyers using criteria that where inconsistent with their personal view of how business should be conducted and/or the official competitive strategy of the firm. Also, most of the respondents could provide examples of prospective buyers that were dropped from the customer portfolio or to whom a decision was made not to enter into business relationship with due to ethical considerations of implications of adapting to the buyers' criteria. The prestudy also provided some face validity to the interactionist perspective on industrial buying behavior. In the unprimed part of this section, several of the respondents reported beliefs that buyer company strategy, structure of markets in which buyers were selling, and the personal background of individual buyers were related to their use of supplier selection criteria. In the focused section, where these three topics were explicitly brought up, most respondents could provide examples of buyers and firms that had exhibited behavior consistent with the perspective. Together, this indicates a considerable level of face validity of the theoretical perspective. The last part of the interviews was focusing on which criteria buyers tend to use for evaluating prospective or existing suppliers. The following supplier dimensions emerged as among the most important in this industry: Flexibility, price, market orientation, knowledge provider and reliability.

*Flexibility* is concerned with the suppliers' capacity to adapt in terms of quantities and product items to changing customer needs. Many buyers are facing cyclical demand conditions, and handle challenges created by high and low demand periods and unpredictability of demand (Duncan, 1972) by having partners that can supply small as well as large

quantities as needed. Also due to the costs involved in developing and maintaining inter-firm relationships (Williamson, 1985), buyers have preferences for low to medium numbers of suppliers. This creates a preference for suppliers that can provide many products over specialist with only one or a few products in their portfolio (e.g. some suppliers are only providing fresh, iced salmon, while other firms provide a range of salmon products together with products derived from other fish and shellfish species).

*Market orientation* has a slightly different meaning in the terminology used in the seafood value system than the technical meaning found in the marketing literature (e.g. Narver and Slater, 1990; Kohli and Jaworski, 1990). Kohli and Jaworski (1990) define market orientation as the organization-wide information generation and dissemination and appropriate response related to current and future customer needs and preferences. In the meaning system of actors in the seafood industry a willingness and capacity to respond to customer needs and preferences is also at the core of the market orientation concept. However, they are less concerned with the information generation and dissemination aspects as necessary conditions for firm level responsiveness. Responsiveness is more seen as a function of attitudes of individuals in the supplying firm, and firm level organizational culture. In addition it is recognized that responsiveness is dependent on other firm resources such as size, skills, location, technology and access to raw materials than to the firm's information processing system.

*Knowledge provider.* It has been shown that transfer of information and skills between firms in a vertical value system can be an important source of synergy (Simonin, 1999). In particular under conditions of low partner protectiveness, cultural and organizational distance, the transfer of knowledge and skills across organizational boundaries can be efficient. In the seafood industry, actors experience high levels of environmental uncertainty stemming from a number of factors (Lines, 1992). In particular, factors such as temperature, weather, diseases and a large number of price taking actors making capacity decisions based on historical prices lead to large and unpredictable variation in industry output. This creates large fluctuations in prices, which when combined with low shelf life of products, create high levels of business risk to all actors involved in the value system. Some of this risk can be lowered by monitoring factors influencing output at the primary production level (catches and quantities of live salmon held in salmon farms). Due to elaborated communication networks between actors upstream in the value system, selling firms are well positioned to

provide downstream actors with information regarding such factors. This information is potentially useful for making better decisions regarding purchased quantities and in negotiations with suppliers and customers, thus of economic value to buyers.

*Reliability.* Factors such as salesperson attitudes, firm culture and resources create variability in the perceived level of reliability of alternative suppliers. Reliability is an important factor influencing the economics of buying firms because delivery failure (timeliness, quality variations, unreliable quantities etc) creates additional transaction cost and can hurt the internal efficiency of buying firms. In addition unreliable supply can translate into unreliable performance of buying firms vis-à-vis their customers and hurt firm reputation.

### 3.2 Main study

Although no direct hypotheses concerning effects of national culture were developed in this study, respondents from seafood firms in three countries were used as informants. The screening criterion for respondents was that they were responsible for purchasing one or several seafood items. In order to test for effects of market transparency, firms from both regional whole sale markets (high transparency condition) and coast based importers/manufacturers were sampled. Respondents were contacted by telephone to solicit participation. When participation in the study was agreed, a personal interview was conducted.

### 3.3 Measurement

A metric conjoint approach (Green and Srinivasan, 1978) was used in order to measure relative importance of supplier selection criteria. Each of the above dimensions was divided into four levels. A fractional factorial design with orthogonal attribute levels was used as a compromise between the need for statistical efficiency and moderate information load on respondents (Denstadli and Lines, 1995). This design yielded a total of 25 company profiles. Two additional holdout profiles were created in order to assess the predictive validity of the estimated evaluation functions. The conjoint task was pretested, using, as a convenience, samples of academics and graduate students in business administration. Results of the pretest indicated that the conjoint task would be completed in 4-7 minutes and that the information load and effort needed to evaluate the alternatives were acceptable to the

respondents. This was further verified during the main study.

*Competitive strategy* was measured using a scale composed of a total of six items, three reflecting a cost leadership strategy and the remaining three reflecting a differentiation strategy. Principal components analysis (criterion for extraction, Eigenvalue > 1) indicated that two factors account for the majority of the variance in the original items. The pattern of principal component loadings was concordant with à priori expectations. Internal consistency of each factor was judged to be satisfactory with Cronbach's  $\alpha = .75$  and  $.64$  for the cost leadership and differentiation dimensions, respectively.

*Personal experience.* Two domains of were tapped in order to operationalize the personal experience construct: Level and type of formal education and work experience from within and outside the seafood industry. Formal education was measured with one item asking respondents to indicate their highest level of formal education. This item was open ended and responses were subsequently coded into the following six educational categories: elementary, high school, college level, engineering, food technology and undergraduate business administration. Work experience was measured using two items. The first was a dichotomous (yes/no) item, asking for presence of experience from other industries than the seafood industry. The second measured how many years the respondent had been working in the seafood industry.

## 4. RESULTS

### 4.1 Descriptive results.

The majority of the respondents were either top/general managers or purchasers in their firms. The relatively large proportion of general managers reflects the fact that purchasing and supplier selection is perceived as a crucial activity in this business, and that competitive advantage can be created or lost depending on how this function is performed. Most respondents had high school or college level formal education as their highest degrees. However, the results revealed inter-country differences in that French purchasers more frequently fell into the undergraduate business administration and elementary school categories than their counterparts from UK and Spain. Relatively few French and UK respondents reported work experience from other industries or sectors of the economy. 41 % of the Spanish respondents reported to have held positions in other industries. Respondents from all countries had long histories of work experience from the seafood industry (average years in the industry were

27, 20 and 19 for UK, Spain and France, respectively. Supplier reliability turned out to be the most important supplier selection criterion with an estimated average importance weight of 32.4 compared to the next most important which was price (average importance weight = 17). Supplier reliability is significantly higher than all other supplier selection criteria ( $p < .001$  based on two tailed tests).

#### 4.2 Hypothesis testing.

Due to intercorrelation between dependent variables, a two-step procedure was followed in order to test the hypotheses H2 and H3 (Dillon and Goldstein, 1984). The first step involved a MANCOVA that test for the relationship between one or more factors (educational background and work experience from outside the seafood industry) and a set of covariates (strategy and years of experience from the seafood industry) and the vector of dependent variables (supplier selection criteria importance). The MANCOVA indicated significant relationship between the two sets of variables (Wilks  $\lambda = .82$ ;  $F = 3.1$ ,  $p < .001$ ), a results that permits performance of step two which involves a set of univariate tests of the relationship between the independent variables and each dependent variable. H2 suggested that purchasers employed in firms pursuing a cost leadership strategy will focus more on price when selecting suppliers than their counterparts in firms following a differentiation strategy. Cost leadership was entered as a covariate in an ANCOVA with price focus as the dependent variable in order to test for this relationship. Cost leadership was found to be significantly related to price focus in the hypothesized direction ( $\beta = 3.14$ ,  $p < .05$ ). Firm differentiation strategy was marginally related to an emphasis on supplier reliability ( $\beta = 3.2$ ,  $p = .07$ ). Hypothesis H3 stated that a relationship between purchaser personal experience and emphasis on supplier selection criteria was expected. In order to test this hypothesis, the relationships between work experience, formal education and emphasis on supplier selection criteria were estimated using a ANCOVA procedure. Results show that amount of work experience from the seafood industry is positively related to an emphasis on supplier market orientation ( $\beta = .28$ ;  $p < .001$ ) and negatively related to an emphasis on the supplier as a knowledge provider ( $\beta = -.22$ ,  $p < .01$ ). Purchasers' formal education was found to be significantly related to market orientation ( $F = 3.1$ ,  $p < .05$ ), knowledge providing function ( $F = 2.9$ ,  $p < .05$ ) and reliability ( $F = 2.2$ ,  $p < .05$ ). Emphases on price and flexibility were unrelated to formal education. The most striking difference was found for market orientation. Purchasers with a college level degree scored more

than double on this indicator compared to their peers with lower level education. The knowledge providing function of suppliers was most emphasized by purchasers with undergraduate business and engineering degrees. Together these results support hypotheses H2 and H3.

According to hypothesis H1, market transparency was assumed to be positively related to a focus on price. In order to test this hypothesis we needed two samples of respondents embedded in market environments that differ clearly on the transparency dimension. Data from UK (Billingsgate and Grimsby) seemed to meet this criterion best. Billingsgate comes close to perfect competition, while Grimsby is more close to monopolistic competition due to firm differences and more restricted flow of decision-relevant information. A comparison between the two samples indicates that purchasers employed in firms located at Billingsgate emphasize price more heavily than purchasers from Grimsby based firms (mean emphasis 29.2 and 11.0, respectively,  $p < .0001$ ).

#### 5. DISCUSSION

As stated in the introduction, relatively little past research has attempted to conceptualize and test for inter-industry variability in industrial buying behavior. In this study, we used an interactionist perspective in order to derive hypotheses regarding what factors determine within industry differences in emphasis on supplier selection criteria. Indicative of the usefulness of this theoretical perspective is that all three main hypotheses received considerable support. However, the results also deserve some further discussion. We found that markets assumed to exhibit a large amount of transparency seem to provide a strong incentive for purchasers to focus on the price level held by suppliers. The logic we proposed for this relationship was that market transparency is closely related to market efficiency, and that under such conditions excessive costs would rapidly drive actors out of the market. Less transparent markets, it was argued permit nonoptimal cost functions because customers are less likely to discover more cost efficient suppliers, at least in the short run. Our research design does not permit us to rule out the alternative mechanism, i.e. that weaker incentive to focus on price is created by lower levels of product class knowledge possessed by purchaser firm's own customers. Further research should use designs that provide tests for these two competing explanations.

We also found some relationships between competitive strategy and emphasis on supplier selection criteria, indicating that purchasers gradually adapt their criteria to the objectives of the firm, and

see the supplier selection process as an important part of the implementation of the firm's strategy. Further indications of the strategic role of purchasing in this industry are found in the fact that senior level managers frequently participate in the purchasing process.

Although purchasers seem to adapt their supplier selection process to important contextual factors, they exhibit some consistency across situations and over time. This is shown by the fact that personal experiences such as formal education and work experience seems to partly determine their use of supplier selection criteria.

The results of this study have some important implications for the process by which firms' should adapt their value activities to maximize competitive advantage. The interactionist perspective and the findings reported can be seen as a framework for market segmentation, a process that precedes adaptation in market oriented firms. Depending on the competitive strategy chosen by the firm, the market structure in which the customer firm is embedded should be considered as a key segmentation variable. Firms following a cost leadership strategy would benefit from selecting customers operating under conditions of high market transparency, because customers valuing low prices are most likely to be found under such conditions. Also, a match between supplier competitive strategy and customer competitive strategy is most likely to yield optimal results, in the short term as well in the long term. A match seems particularly important for long term results, because it facilitates a coevolution of structures and processes in the two firms that is likely to maximize system level competitive advantage (Noordevier, John and Levin, 1990). Also, considering the background of individual buyers can play some role in customer selection.

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